

DIRECT TESTIMONY AND EXHIBITS OF

ANTHONY M. SANDONATO

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2020-1-E

IN RE: ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS OF

DUKE ENERGY PROGRESS, LLC

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Anthony Sandonato. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Energy Operations Division as a Senior Regulatory Manager.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my Bachelor of Science in Nuclear Engineering from North Carolina State University in 2011. Prior to my employment with ORS, I was employed as an analyst with a global professional, technology, and marketing service firm working with large investor-owned utilities on energy efficiency program design and implementation. I joined ORS in 2016, and, in October 2019, I was promoted to my current position in the Energy Operations Division.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

A. Yes. I have previously testified before the Commission.

Q. WHAT IS THE MISSION OF ORS?

**THE OFFICE OF REGULATORY STAFF
1401 Main Street, Suite 900
Columbia, SC 29201**

1 **A.** ORS represents the public interest as defined by the South Carolina General
2 Assembly as:

3 [T]he concerns of the using and consuming public with respect to public
4 utility services, regardless of the class of customer, and preservation of
5 continued investment in and maintenance of utility facilities so as to provide
6 reliable and high-quality utility services.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 **A.** The purpose of my testimony is to set forth ORS's recommendations resulting from
9 our examination and review of Duke Energy Progress, LLC's ("DEP" or "Company") fuel
10 expenses used in the generation of electricity to meet the Company's South Carolina retail
11 customer requirements during the review period. The review period includes the actual
12 data for March 1, 2019 through February 29, 2020 ("Actual Period"), estimated data for
13 March 1, 2020 through June 30, 2020 ("Estimated Period"), and forecasted data for July 1,
14 2020 through June 30, 2021 ("Forecasted Period").

15 **Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?**

16 **A.** Yes, the review to which I testify was performed by me or under my supervision.

17 **Q. WHAT DID YOUR REVIEW OF THE COMPANY'S FUEL EXPENSES AND**
18 **PLANT OPERATIONS INVOLVE?**

19 **A.** ORS examined various fuel related documents as part of our review. These
20 documents address the Company's fuel, environmental, and purchased power expenses for
21 the Actual, Estimated, and Forecasted Periods. In preparation for this proceeding, ORS
22 analyzed the Company's monthly fuel reports. ORS examined the Company's contracts
23 for nuclear fuel, coal, natural gas, fuel oil, transportation, and environmental reagents.
24 ORS also evaluated the Company's policies and procedures for fuel procurement. All
25 information was reviewed with reference to the Company's existing Adjustment for Fuel,

Variable Environmental, Avoided Capacity, S.C. Code Ann. §58-27-865 (the “Fuel Clause Statute”), and the Company’s approved Distributed Energy Resource Program, S.C. Code Ann. § 58-39-140 (“DERP”).

Q. WHAT ADDITIONAL STEPS WERE TAKEN IN ORS’S REVIEW OF THE COMPANY’S PROPOSAL?

A. ORS met remotely with Company personnel from various departments to discuss and review fossil and nuclear fuel procurement, fuel transportation, environmental compliance costs and procedures, emission allowances, generation plant performance, distributed energy resources, forecasting, and general Company policies and procedures pertaining to fuel procurement. In addition, ORS monitored the nuclear, coal, natural gas, transportation and renewable industries through industry and governmental publications.

Q. DID ORS REVIEW THE COMPANY’S ENVIRONMENTAL COMPLIANCE RELATED COSTS?

A. Yes. ORS reviewed the Company’s environmental compliance related costs including allowances for nitrogen oxide (“NO_x”) and sulfur dioxide (“SO₂”) emissions, reagents (i.e., limestone, ammonia, urea, etc.), and chemicals used in the reduction of these emissions. The use of these chemicals and reagents reduces the Company’s NO_x and SO₂ emissions, and the costs associated with the use of these substances are included in the Company’s Adjustment for Fuel, Variable Environmental, Avoided Capacity, and DERP costs tariff as provided by the Fuel Clause Statute.

Q. DID ORS REVIEW THE ACCURACY OF THE COMPANY’S FORECAST?

A. Yes. As shown in Exhibit AMS-1, the Company’s actual MWh sales were 8.04% lower than expected during the Actual Period. Exhibit AMS-2 shows, on average, the

1 actual fuel costs per kilowatt-hour (“kWh”) for the Actual Period were 3.93% higher than
2 the projected monthly fuel costs per kWh. Exhibit AMS-3 shows the actual fuel expenses
3 for the Actual Period were 4.13% lower than the Company’s projections for the Actual
4 Period.

5 **Q. PLEASE DISCUSS ORS’S REVIEW OF THE COMPANY’S FORECASTED**
6 **SALES AND COSTS FOR THE ESTIMATED AND FORECASTED PERIODS.**

7 **A.** ORS reviewed the Company’s projected sales and analyzed them with regards to
8 the projections from its last fuel proceeding in Docket No. 2019-1-E and the actual sales
9 from the Actual Period. ORS found the Company’s sales projections to be reasonable and
10 in line with historical sales data.

11 ORS reviewed the Company’s forecasted costs for nuclear fuel, coal, natural gas,
12 fuel oil, transportation, and environmental reagents for the Estimated and Forecasted
13 Periods. ORS compared the monthly projected costs to historical projections from Docket
14 No. 2019-1-E, actual data from the Actual Period, and commodity prices from numerous
15 industry publications. ORS found the Company’s forecasted costs to be reasonable.

16 **Q. DID ORS DETERMINE THE PRIMARY DRIVERS OF THE COMPANY’S**
17 **REQUEST FOR A RATE CHANGE IN THIS PROCEEDING?**

18 **A.** Yes. Exhibit AMS-4 shows ending period balances of base fuel, environmental,
19 avoided capacity, and a DERP avoided costs beginning in February 2011. As of February
20 2020, the Company had a base fuel cumulative under-recovery balance of \$8,184,897, a
21 variable environmental over-recovery balance of \$86,729, avoided capacity under-
22 recovery balance of \$2,280,575, and DERP avoided costs under-recovery balance of
23 \$12,640. This is reflected in ORS witness Briseno’s Audit Exhibit ADB-5. As shown on

ORS witness Briseno's Exhibit Audit ADB-5, page 2 of 2, ORS projects the Company to have a base fuel cumulative under-recovery balance of \$3,825,490, a variable environmental over-recovery balance of \$605,878, a capacity related under-recovery balance of \$2,126,329, and a DERP avoided costs under-recovery balance of \$36,576 by June 2020. The Company's request for a decrease is driven primarily by these balances being lower than in the previous year (Docket No. 2019-1-E), and lower environmental and capacity costs, delivered coal, and natural gas prices during the Forecasted Period.

Q. WHAT CHANGES DOES THE COMPANY REQUEST TO ITS CURRENTLY APPROVED FACTORS?

A. DEP requests the Commission approve a decrease to its currently approved Base Fuel Component for the Forecasted Period. Additionally, the Company requests to update its Variable Environmental Component, Capacity Related Cost Component, and DERP Avoided Cost Component to reflect the Company's forecasted expenses and allocation of these expenses to each class of customer based on its contribution to the Company's winter 2019 peak.

Q. ARE THERE ANY ADDITIONAL FACTORS IN THIS DOCKET THAT WILL IMPACT CUSTOMERS' BILLS?

A. Yes. The Company included proposed rates related to its DERP incremental expenses. ORS witness Lawyer addresses the Company's incremental expenses to be recovered as a fixed charge ("DERP Charge") on customer bills.

Q. DOES ORS RECOMMEND ANY ADJUSTMENTS TO THE FUEL FACTOR PROPOSED BY THE COMPANY?

1 **A.** No. Exhibit AMS-5 is a summary of the proposed fuel factor components for each
2 customer class. If approved by the Commission, the rates proposed in this proceeding,
3 including the recommended DERP Charge addressed by ORS witness Lawyer, would
4 decrease the average monthly bill for a residential customer on Rate RES using 1,000 kWh
5 from \$124.98 to approximately \$120.87, a net decrease of \$4.11 or 3.5%.

6 **Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION**
7 **THAT BECOMES AVAILABLE?**

8 **A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental
9 testimony should new information not previously provided by the Company, or other
10 sources, becomes available.

11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 **A.** Yes, it does.

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Comparison of South Carolina Estimated to Actual Energy Sales

Duke Energy Progress, LLC

Docket No. 2020-1-E

EXHIBIT AMS-1

		2019										2020			
		Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Period Total	
1	Actual Sales (MWh)	418,590	513,545	473,234	506,707	603,749	616,734	592,323	532,623	418,287	489,613	522,874	515,934	6,204,214	
2	Estimated Sales (MWh)	549,831	513,252	493,719	543,925	618,403	633,263	605,425	527,202	503,020	554,333	607,182	596,770	6,746,324	
3	Difference (1-2)	-131,241	293	-20,485	-37,218	-14,654	-16,529	-13,102	5,422	-84,733	-64,719	-84,308	-80,836	-542,110	
4	Percent Difference (3/2)	-23.87%	0.06%	-4.15%	-6.84%	-2.37%	-2.61%	-2.16%	1.03%	-16.84%	-11.68%	-13.89%	-13.55%	-8.04%	

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EXHIBIT AMS-2

Comparison of South Carolina Estimated to Actual Fuel Cost

Duke Energy Progress, LLC

Docket No. 2020-1-E

		2019										2020		
		Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Period Average
1	Actual Experience (¢/kWh)	2.280	2.226	2.328	2.242	2.242	2.094	2.067	1.984	2.390	1.890	1.668	1.672	2.090
2	Original Projection (¢/kWh)	2.057	1.873	2.105	2.202	2.168	2.109	1.869	1.954	2.038	1.908	1.947	1.897	2.011
3	Amount in Base (¢/kWh)	2.366	2.366	2.366	2.366	2.075	2.075	2.075	2.075	2.075	2.075	2.075	2.075	2.172
4	Variance from Actual ((1-2)/2)	10.84%	18.88%	10.57%	1.82%	3.41%	-0.72%	10.60%	1.52%	17.27%	-0.93%	-14.32%	-11.89%	3.93%

Office of Regulatory Staff
Comparison of Estimated to Actual Base Fuel Costs
Duke Energy Progress, LLC
Docket No. 2020-1-E

		2019											2020			Period Total
		Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb			
1	Actual Experience (Total \$)	\$9,543,415	\$11,432,459	\$11,015,389	\$11,359,066	\$13,535,512	\$12,915,107	\$12,242,155	\$10,565,032	\$9,996,678	\$9,254,924	\$8,723,689	\$8,625,189	\$129,208,615		
2	Original Projection (Total \$)	\$11,258,727	\$9,529,127	\$10,308,040	\$11,883,011	\$13,318,544	\$13,275,836	\$11,238,019	\$10,227,503	\$10,191,475	\$10,528,840	\$11,762,169	\$11,259,266	\$134,780,557		
3	Difference [1]-[2]	-\$1,715,312	\$1,903,332	\$707,349	-\$523,945	\$216,968	-\$360,729	\$1,004,136	\$337,529	-\$194,797	-\$1,273,916	-\$3,038,480	-\$2,634,077	-\$5,571,942		
4	Percent Difference [3]/[2]	-15.24%	19.97%	6.86%	-4.41%	1.63%	-2.72%	8.94%	3.30%	-1.91%	-12.10%	-25.83%	-23.39%	-4.13%		

Office of Regulatory Staff
History of Cumulative Recovery Accounts
Duke Energy Progress, LLC
Docket No. 2020-1-E

EXHIBIT AMS-4

Period Ending	Base Fuel Costs (Over)/Under	Environmental Costs (Over)/Under	Capacity Costs (Over)/Under	DERP Avoided Costs (Over)/Under
February-11	\$ 10,418,111	\$ 99,386	N/A	N/A
February-12	\$ (5,129,003)	\$ 367,391	N/A	N/A
February-13	\$ (695,511)	\$ 318,611	N/A	N/A
February-14	\$ 21,559,994	\$ 558,851	N/A	N/A
February-15	\$ 20,760,123	\$ 60,632	\$ 1,799,759	N/A
February-16	\$ 6,564,246	\$ 364,914	\$ 1,907,835	N/A
February-17	\$ 6,872,181	\$ 618,034	\$ 893,261	\$ -
February-18	\$ 23,394,223	\$ (616,503)	\$ 1,622,069	\$ 2,715
February-19	\$ 13,424,397	\$ 199,209	\$ 574,928	\$ 19,286
February-20	\$ 8,184,897	\$ (86,729)	\$ 2,280,575	\$ 12,640

Office of Regulatory Staff
Proposed Fuel Factors
Duke Energy Progress, LLC
Docket No. 2020-1-E

EXHIBIT AMS-5

Proposed Fuel Factors (¢/kWh)					
Customer Class	Base Fuel Component	Environmental Component	Capacity Related Component	DERP Avoided Cost Component	Total Fuel Factor
Residential ¹	1.901	0.021	0.532	0.002	2.456
General Service (non-demand)	1.887	0.012	0.358	0.001	2.258
General Service (demand)	1.887	- ²	- ³	- ⁴	1.887
Lighting	1.887	0.000	0.000	0.000	1.887

¹ The Residential Base Fuel Factor includes the Residential Energy Conservation Discount, Rider RECD-2C, adjustment factor of 0.7179%.

² The Proposed General Service (demand) Environmental Component is 6 cents per kW.

³ The Proposed General Service (demand) Capacity Related Component is 108 cents per kW.

⁴ The Proposed General Service (demand) DERP Avoided Cost Component is 2 cents per kW.